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(Project 115.10.1)

See Reverse for Review Action

4 December 1953

SOME INDICATIONS OF THE MAGNITUDE OF STRATEGIC TRADE TRANSACTIONS  
DURING 1953 AND THE IMPORTANCE OF SURVEILLANCE AND ENFORCEMENT

1. For a variety of reasons no satisfactory statistical record is available of the volume and composition of strategic trade between the Soviet Bloc and the Free World. Nevertheless, it is imperative that some tentative concept of the magnitude of this trade be formulated to serve as a basis for discussions of problems of policy with respect to security trade control programs.

2. A centralized program of surveillance of East-West trade transactions has been developed during the past six months. During that time the incoming materials relating to strategic trade have been examined and processed into a classified file. From the point of view of "collection date" and "date of information" the materials extend back about 12 months but with a heavy concentration in June-November 1953 and only a light coverage of the preceding six months. Consequently, considered as a sample of a 12-months period the information contains a significant downward bias and is insufficient as a basis for anything more than tentative inferences regarding the composition and magnitude of strategic trade and the importance of surveillance and enforcement measures. The file of information is also uneven as between commodity categories. For example, for those items which are easily identifiable and where the strategic definition corresponds (or roughly so) to commercial usage, the inflow of information is more complete. Copper and aluminum are examples of commodities with respect to which field sources have provided what appears to be comparatively good coverage.

It is important in this connection to note that the information (a) consists only of that which has been sent in from field sources, under circumstances where there has been no established priority for collection of East-West trade intelligence, and (b) is deficient with regard to particular transactions or procurement efforts because of the lack of specific arrangements for "follow-up" checks or inquiries to complete case records with reference to final outcome.

3. Evidence of the importance of strategic trade may be derived from various types of information. One of the more fruitful sources is that relating to the specific efforts of traders to buy or sell particular commodities. Illuminating inferences may also be drawn from the number of known traders, firms and other intermediaries involved, and the organization, methods and special arrangements resorted to for the purpose of evading existing controls. The materials which follow represent an effort to present in summary form information from these various sources which may serve as a basis for inferences regarding the magnitude of strategic trade transactions and the importance of surveillance and enforcement programs.

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TRANSACTIONS AND PROCUREMENT EFFORTS INVOLVING COPPER AND ALUMINUM

1. Copper and aluminum were selected as examples of strategic commodities which have been extensively traded and with respect to which the information available could be reviewed and summarized in a reasonably short time. Although the review of these two commodities was limited to selected cases, it is believed that the inclusion of the more important transactions and procurement efforts has resulted in a relatively large sample for the period covered.

Copper is subject to embargo under International List I. Aluminum hard alloys in semifabricated forms used in aircraft construction are also on I/L I, while other aluminum metal, alloys and scrap are on I/L II. However, the latter category has a special status under COCOM, described as the 3(d) or quid pro quo procedure. Member countries have agreed to give prior notification of shipments to the Soviet Bloc as a result of the listing of aluminum under Title I-B of the Battle Act. COCOM member countries have reported the shipment of only about 3600 tons of aluminum to the Soviet Bloc so far during 1953 (value roughly \$2,250,000), practically all of which was exported by Norway, and only 256 tons of copper.

In summarizing information on procurement efforts, it is recognized that separate (sometimes various) attempts to procure a particular lot of a given commodity (e.g. aluminum, copper, etc.) are reported from different sources. An effort has been made to exclude such duplications, but this is not always possible owing to interlocking rings of East-West traders and to overlapping and competitive efforts to buy and sell. Consequently, the commodity data presented should not be taken as pure aggregates but as indications of the intensity of the efforts to procure urgently required commodities.

It is not possible to measure the extent to which the mere existence of the control program is a deterrent to operations which are known by traders to lack official approval. For that reason the data presented with respect to procurement efforts which were interrupted by administrative action or otherwise frustrated should not be interpreted as indicating fully the effectiveness of the export control program.

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2. Copper (I/L I). Examination of available information on Soviet Bloc efforts to obtain copper from the West during the 12 months ending November 1953, resulted in the selection of 52 significant cases as a rough indication of the magnitude of copper transactions and procurement efforts during that period. This covers a total of 103 thousand metric tons valued at about \$85 million (value partially estimated). This total may be divided into three significant categories as follows:

- a. At least 10 thousand metric tons, valued at about \$9 million, were diverted to the Soviet Bloc.
- b. Efforts to procure an additional 16 thousand metric tons, valued at \$13 million, were interrupted by administrative action.
- c. With respect to procurement efforts involving 76 thousand tons, valued at \$63 million, it has not yet been possible to determine the final outcome.

These categories include cases covered by reports supported by documentary evidence, on-the-spot investigation by US personnel, or by information from reliable sources. Category "a" includes those cases where the available information indicates definitely that diversion was completed. No way has been found for estimating what proportion of category "c" may represent, or may eventually be established as, completed diversions, nor is it possible, in the absence of adequate "follow-up" procedures, to indicate when or how rapidly the final outcome of these cases may be determined.

The data presented above with respect to copper transactions exclude the offer by an intermediary to buy 50,000 tons of Chilean unsold stocks at an estimated value of \$37 million. The offer was made by letter to a Chilean supplier, and appears to have been valid, but nothing definite is known about the outcome. If reports are to be taken as valid which have some characteristics of rumour, which lack confirmation or knowledge of subsequent development, or which include questionable details, additional efforts were made to procure an estimated 22 thousand metric tons, valued at about \$18 million. The above categories (a, b, and c) are summarized in Tab A (attached).

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3. Aluminum (I/L I and II). With regard to aluminum, a sample of 65 selected transactions involved a total of 69-81 thousand tons, valued at \$42-\$50 million. This total may be divided into three significant categories as follows:

a. Available information indicates that the completed transactions represented 11-17 thousand tons, valued at \$7-\$11 million. The higher figures in this category include 6,000 tons, valued at \$3,600,000, which represents a 12-month projection of an average monthly movement from Austria to the Soviet Bloc of 500 tons, reported from Vienna. The available information indicates that this movement of Austrian aluminum is not included in the other cases which make up the total sample of transactions involving aluminum, but this has not been established with complete certainty.

b. A second significant category encompasses a total of 42-48 thousand tons, valued at \$26-\$29 million, involving transactions or negotiations to purchase which have been interrupted by administrative action or otherwise frustrated. The higher figures in this category include procurement efforts involving 5900 tons, valued at \$3,540,000 which may be included in transactions involving a total of 10,000 tons, valued at \$6,000,000 which were frustrated by action of Italian government authorities.

c. A third category is made up of a series of procurement efforts involving 15,850 tons, valued at \$9,610,000. The available information with respect to this group of transaction attempts is insufficient to indicate whether or not the efforts were successful.

The above three categories are summarized in Tab B (attached).

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TAB A: COPPER

November 1952 - October 1953

<u>Category*</u>	<u>Quantity</u> (metric tons)	<u>Value**</u> (000's omitted)
a. Diversions completed	10,456	\$ 8,949
b. Procurement efforts - interrupted	16,105	13,036
c. Procurement efforts - outcome undetermined	76,415	63,010
 TOTAL (a, b, and c)	 102,976	 \$84,995

\* In the classification of the above cases a few of those in b and c might properly be included in either category. In each instance the decision was necessarily arbitrary, but was made on the basis of informed judgment.

\*\*All value figures should be read as estimates because of inconsistency of price quotations (e.g. - FOB, CIF, commissions and fees included or excluded, etc.), and the necessity of interpolating ton prices in some cases.

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TAB B: ALUMINUM

November 1952 - October 1953

<u>Category*</u>	<u>Quantity</u> (metric tons)	<u>Value**</u> (000's omitted)
a. Diversions completed	11,100 - 17,100	\$ 6,940 - \$10,540
b. Procurement efforts - interrupted	42,400 - 48,300	25,940 - 29,480
c. Procurement efforts - outcome undetermined	15,850	9,610
 TOTAL (a, b, and c)	 69,350 - 81,250	 \$42,490 - \$49,630

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